Research on the Third-party Funding System and China's Response

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Abstract: The third-party funding system is an investment-oriented legal service that provides the funded party with an opportunity to access justice while also offering potential winning benefits to third-party funding institutions. Currently, the legality of the third-party funding system has been generally recognized in both Chinese arbitration practice and judicial practice. However, due to the lack of clear legal status for the third-party funding system in China, issues such as conflicts of interest between funders and arbitrators and the intervention of third-party funders in the arbitration process may hinder the development of the third-party funding system in China if not effectively addressed. This article analyzes the development challenges of the third-party funding system, taking into account China's actual conditions and drawing on legislative and practical experiences from other jurisdictions that regulate third-party funding, to explore ways to overcome the development challenges of the third-party funding system in China.

Keywords: International Arbitration; Third-party Funding; Conflict of Interest; Information Disclosure

1. Introduction

With the advancement of China's "Belt and Road Initiative" (BRI), China has attracted a large number of investments from BRI-related countries, and an increasing number of Chinese enterprises are investing abroad, leading to closer cooperation between countries. For example, according to data from China's Ministry of Commerce, by the end of 2022, Chinese enterprises had made non-financial direct investments of 141.05 billion RMB in countries along the Belt and Road, a 7.7% increase from the previous year. These investments are accompanied by numerous commercial disputes, many of which are resolved through international arbitration. However, the significant value of transnational cases also means that the associated costs, such as arbitration institution management fees, arbitrator fees, and attorney fees, are very high. According to data published by the International Center for Settlement of Investment Disputes (ICSID), ICSID currently charges an annual arbitration and mediation service fee of $52,000 per party. Many small and medium-sized enterprises (SMEs) are unable to bear such high arbitration costs, deterring them from pursuing international investment arbitration and depriving them of the opportunity for fair justice. In this context, third-party funding has emerged. Furthermore, in the post-pandemic era, global instability persists, and the demand for third-party funding among enterprises of all sizes in various fields has surged. Therefore, researching the relevant legal issues of third-party funding applicable in China has become urgent.

2. Third-Party Funding

Given the complexity and diversity of third-party funding content and models, there is currently no consensus in the international legal community on the definition of third-party funding. This article references Article 98G of the Arbitration and Mediation Legislation (Third Party Funding) (Amendment) Ordinance 2017 of Hong Kong (hereinafter referred to as the "Hong Kong Third Party Funding Ordinance"), the draft provisions on third-party funding published by the United Nations Commission on International Trade Law (UNCITRAL), Article 21(1) of the ICSID's Proposed Amendments to the ICSID Arbitration Rules (First Version) published in April 2019, and the viewpoint of the UK Supreme Court in the Excalibur v. Texas case. It is considered that third-party funding (Third Party Funding) refers to the

behavior whereby a third party, which is not a party to the dispute and has no interest in the dispute, enters into a funding agreement with one of the parties in the investment arbitration to provide direct or indirect support for all or part of the arbitration service costs and enjoys all or part of the potential winning benefits of the funded party..

2.1 The Necessity of the Third-Party Funding System

Since its inception, third-party funding has been highly controversial. However, many common law countries and regions have pierced the traditional prohibitions on maintenance and champerty, amending relevant laws and regulations to establish the legal status of third-party funding and other related provisions to promote the stable development of the third-party funding system. The shift from prohibition to allowance of the third-party funding system is not accidental but rather a response to the needs of the times. It is not a traditional legal service but a new type of legal service that integrates financing functions, risk management functions, and resource integration functions. The functions of the third-party funding system should be actively explored and fully utilized.

First, the third-party funding system provides parties with the opportunity to access justice. As mentioned earlier, the arbitration management fees, legal service fees, arbitrator fees, and other arbitration-related costs involved in international arbitration are very expensive. Additionally, the arbitration process involves cross-border procedures, and its duration is often long. Many enterprises cannot afford the economic costs of arbitration, or they are unable to divert large sums of money that should be used for business operations into dispute resolution without return for a long time, thus preventing them from initiating arbitration proceedings. This leads to many disputes being shelved without resolution, leaving parties unable to seek justice [Godman 2022]. However, third-party funding institutions can provide all or part of the funds needed for arbitration to one of the parties, enabling them to initiate arbitration proceedings. In this model, cash-strapped or insolvent companies can initiate arbitration, while financially strong companies can use their funds for core business areas, creating revenue and avoiding the allocation of large sums to legal disputes[Huaping 2018].

Secondly, the third-party funding system shifts the risk of losing the arbitration. Third-party funding is essentially a non-recourse financing model, meaning that the third-party funder provides financial or material support to one party, helping them initiate arbitration in exchange for a certain percentage of the winning benefits. However, if the party does not win the case, the funded party does not need to repay the funds or material support provided by the third-party funder [Qtiashat 2021]. Under the non-recourse financing model, third-party funding institutions relieve the funded parties of their worries; the funded parties do not need to consider the costs and risks of losing the arbitration. For example, in Essar v. Norscot, Norscot initiated arbitration through third-party funding. Although they ultimately lost, according to the funding agreement, Norscot did not need to repay the funding, successfully shifting the risk of arbitration from the party to the funder.

Lastly, the third-party funding system integrates high-quality legal service resources. With the rise of third-party funding, the legal services provided by third-party funding institutions are becoming more comprehensive. Many third-party funders, in addition to providing litigation funding services, also match parties with experienced legal teams in the field of dispute resolution. Third-party funders usually maintain a professional lawyer database, recording each lawyer's area of expertise to match the parties with the most suitable lawyers, thus avoiding the situation where parties are at a loss when searching for legal service teams. For instance, in the TFM v. KCS case, Tenke obtained a legal team specialized in handling mining disputes through third-party funding and ultimately won the arbitration. This effective integration of legal resources increases the quantity and quality of legal services supply, contributing to the legal, intelligent, and professional improvement of social governance.

3. Challenges Faced by the Third-Party Funding System

From the perspective of China's arbitration system, China shows a high level of

compatibility with third-party funding. From the perspective of China's economic development, with the advancement of the "Belt and Road Initiative" (BRI), China is becoming more closely connected with BRI-related countries, and both domestic and foreign investments are increasing. Optimizing China's investment dispute mechanism cannot be separated from the construction and development of third-party funding in China. However, the development of the third-party funding system still faces the following challenges:

3.1 The Impartiality and Independence of Arbitral Awards Face Challenges

Since third-party funders assist parties in initiating arbitration proceedings and pay attorney fees with the expectation of a favorable outcome in the case, they stand to gain a portion of the winnings. In other words, under the third-party funding model, the arbitration result directly affects whether the funder benefits, creating a direct shared interest between the funder and the party.

However, due to the confidentiality of the arbitration process and the funders' interest considerations, the funding agreements between funders and funded parties generally include confidentiality obligations[Lepeltak 2012]. If neither the funder nor the funded party discloses the presence of the funder to the arbitral tribunal or the respondent, the respondent may remain unaware of the funder throughout the arbitration process. This leaves room for potential contacts between the funder and the arbitrator, potentially compromising the arbitrator's impartiality and independence [Michael 2018]. Given the unique role of arbitrators, who may also serve as lawyers, legal advisors, or corporate representatives, direct or indirect conflicts of interest between funders and arbitrators are likely. For instance, if third-party funding institution A funds enterprise B in an investment arbitration against host country C, and arbitrator D is involved in this case, but also serves as a legal advisor in another case funded by institution A, and institution A covers the advisor's expenses, conflicts can arise [Tang Xia 2022]. In such scenarios, since arbitrator D receives legal advisor fees from institution A in another case, it would be challenging to ensure arbitrator D's independence and neutrality in ruling on the case involving institution A's funding of enterprise B against host country C. Consequently, the objectivity and fairness of the award could be compromised. Therefore, to avoid the influence of third-party funders on the independence and impartiality of arbitrators and to foster the development of third-party funding, it is necessary to mandate a certain level of disclosure of information about third-party funders.

3.2 Interference in Arbitration Proceedings

The third-party funding system has disrupted the traditional arbitration model, introducing an investment relationship where third parties provide funding beyond the traditional arbitration relationships. Funders, having invested in the arbitration, naturally aim to maximize their returns. To achieve the expected results, funders often find it challenging to avoid some degree of interference and control over the arbitration proceedings [Rogers 2015]. For instance, the support provided by third-party funders to the funded party may extend beyond financial assistance to include appointing case lawyers for the party. In such situations, the payment to the case lawyers is made by the third-party funders, leading the lawyers to prioritize the interests of the funders over the legitimate interests of the party. In some cases, third-party funders may even bypass the party to dictate litigation strategies directly to the case lawyers [Susanna 2011].

Additionally, any actions by the party such as mediation, settlement, or other means that may reduce the benefits that could be legally awarded by the arbitral tribunal, although these actions can resolve disputes more quickly and effectively, often cause concern for funders. They fear that the party's compromise could diminish their expected returns, and thus, funders often restrict the funded party's rights to settle or mediate through the funding agreement [Chen Hanfu 2020]. For instance, in the case of Boling v. Prospect Funding Holdings, the funding agreement stipulated that if the settlement proceeds obtained by the funded party were insufficient to cover all the expenses incurred by the funder for the case, the funder would receive all the settlement proceeds. This provision undoubtedly

restricted the funded party's ability to settle in the arbitration process and was not conducive to dispute resolution [Leiter, Beisner and Schwartz 2022]. However, there are no corresponding rules or cases in China to regulate the validity of such restrictions.

3.3 The Respondent Wins the Case but cannot Recover the Corresponding Adverse Costs

The rapid development of the third-party funding system in recent years can be attributed to two main reasons. On one hand, the system helps parties who cannot afford the costs of arbitration or who, due to business needs, cannot allocate significant funds to legal disputes to initiate arbitration proceedings, thus providing them with an opportunity to access justice. On the other hand, the outcomes of international arbitration are highly uncertain and less predictable, offering third-party funders substantial investment opportunities with the expectation of earning returns from potentially successful cases. However, the fact that funders assist parties in initiating arbitration proceedings does not imply that the funders are also liable for the adverse costs of the arbitration if the party loses the case, meaning they are not responsible for compensating the respondent.

Whether funders bear the adverse costs of an arbitration award falls within the scope of the autonomy of the will in the funding agreement between the funders and the funded parties. Meanwhile, the arbitral tribunal's jurisdiction over related cases is based on the arbitration agreement or the arbitration clause agreed upon by the disputing parties. According to the principle of privity of contract, the funding agreement is between the funders and one of the parties to the arbitration, while the arbitration agreement is between the disputing parties [Sim 2018]. In other words, there is no arbitration agreement between the host country and the third-party funder, so the arbitral tribunal cannot assume that it has jurisdiction over the third-party funder. Even if the tribunal orders the claimant to pay the respondent the costs incurred in the arbitration, it cannot automatically assume that the third-party funder, which helped initiate the arbitration, should bear the adverse costs of the arbitration [Pinsolle 2018].

Whether third-party funders are liable should be based on the agreement between the funders and the funded party regarding the allocation of adverse costs in the award. If the funders agree to bear the adverse costs, the respondent can request the funders to pay the corresponding costs according to the agreement. However, third-party funding is an investment behavior, not purely a benevolent act. In practice, funding agreements generally stipulate that the funders are not liable for adverse costs awards. Moreover, many parties who initiate arbitration through third-party funding are in difficult financial situations and are fundamentally unable to bear their compensation liabilities to the respondents. As a result, even if the respondents win, they may still be unable to receive the compensation they are due.

4. Recommendations for Improving the Third-Party Funding System in China

Although the legality of the third-party funding system has been generally recognized in Chinese judicial practice, and there is significant potential for its development in China against the backdrop of global economic and political instability, it is undeniable that the system still faces major challenges. This section will propose corresponding solutions based on the previously explored difficulties in the development of the third-party funding system in China.

4.1 Improve Rules on the Disclosure of Third-Party Funders

Establishing a disclosure system related to third-party funding can help address potential conflicts of interest arising from the third-party funding system. The first appearance of rules regarding the disclosure of third-party funding information was in the 2014 publication of the "Guidelines on Conflicts of Interest in International Arbitration" by the International Bar Association (IBA) (hereinafter referred to as the "IBA Guidelines on Conflicts of Interest"). General Standard 6(b) of the IBA Guidelines on Conflicts of Interest stipulates that third-party funders have a direct interest in the arbitral award and may be treated as a party to the arbitration. Since third-party funders have a direct economic interest in the arbitration award or bear the responsibility to

compensate a party based on the award, parties are obligated to disclose any relationship between third-party funders and the arbitrators. Additionally, the non-waivable Red List item 1.2 of the IBA Guidelines on Conflicts of Interest requires disclosure if the arbitrator has a controlling influence over an entity with a direct interest in the award, or if the arbitrator is a manager, director, or member of the supervisory board of such an entity with a direct interest in the award.

The publication of the IBA Guidelines on Conflicts of Interest has laid a good foundation for establishing a disclosure system for third-party funding in international arbitration. However, the IBA Guidelines on Conflicts of Interest lack mandatory force and are applied at the discretion of the parties involved, meaning they cannot compel parties to fulfill disclosure obligations and do not have universal applicability for the disclosure of third-party funding information. Additionally, the IBA Guidelines on Conflicts of Interest do not specify whether third-party funders must proactively disclose their information when there is no conflict of interest with the arbitrators, the timing of the disclosure, the scope of the disclosure, or the consequences of failing to fulfill disclosure obligations. Drawing on relevant regulations from Singapore and Hong Kong, China can improve the third-party funding disclosure system in terms of the subject of disclosure, timing of disclosure, scope of disclosure, and the responsibilities for failing to disclose.

Firstly, regarding the subject responsible for fulfilling the obligation of information disclosure, both China's "New Arbitration Rules" and "Rules" stipulate that the funded party bears the obligation to disclose. As for whether the obligation to disclose should be extended to third-party funders, the principle of privity of contract limits the arbitral tribunal's jurisdiction over third-party funders. This is because the funding agreement between one party to the dispute and the third-party funder does not mean that the funder is bound by the arbitral tribunal. Moreover, third-party funders generally interact with the case attorneys and funded parties without directly participating in the arbitration process. Therefore, it is not appropriate to mandate third-party funders to bear the obligation of information disclosure under the rules for third-party funding disclosure. In addition, some countries have stipulated disclosure obligations for case attorneys involved in third-party funding. For example, Singapore's "Legal Profession (Professional Conduct) Rules" published in 2015, specifically Rule 49A(1) regarding third-party funding, stipulates that attorneys must disclose the existence and identity of third-party funders to other parties involved in the case. This rule, by regulating the professional conduct of lawyers, mandates attorneys to disclose relevant information about third-party funding, thereby playing a significant role in avoiding potential conflicts of interest between funders and arbitrators. Regarding the regulation of third-party funding disclosure in China, since third-party funding is still a new phenomenon and related laws and regulations have not been formally incorporated, directly mandating lawyers to bear corresponding obligations in professional conduct regulations lacks higher-level legal support and would be challenging to implement [Cremades 2019]. This paper suggests that once the legal status of third-party funding is further recognized, China can refer to Singapore's regulations and include lawyers as subjects responsible for disclosing third-party funding information. Lawyers, being directly involved in the case and more familiar with the case's various aspects and relevant laws and regulations, are suitable entities for disclosing third-party funding information.

Secondly, regarding the scope of disclosure of third-party funding information, both legal scholars and arbitration practitioners generally agree that it is necessary to proactively disclose the existence of third-party funding and the identity of the third-party funder. However, the extent of the disclosure of the funder's identity information, such as the shareholders, supervisors, and actual controllers of the funding institution, is not explicitly defined [Russell 2017]. This paper argues that due to the limited jurisdiction of arbitral tribunals over third-party funders, the disclosure of third-party funding information should be limited to maintaining the integrity of the arbitral proceedings. That is, considering the balance of rights between the parties [Shaw 2017], disclosing the existence of third-party

funding and the identity of the funder is sufficient to avoid potential conflicts of interest arising from third-party funding. It is unnecessary to mandate the disclosure of the content of the funding agreement. Requiring the disclosure of the terms regarding the bearing of adverse costs in every case involving third-party funding would exceed the scope of maintaining the integrity of the arbitration process. Over time, this could increase the likelihood of funders and funded parties entering into black-and-white funding agreements—where a white agreement is a formal agreement signed for disclosure purposes and not actually implemented, while a black agreement is the real agreement intended for execution and not disclosed. This could lead to ethical issues and be detrimental to the regulation of the third-party funding system.

However, if the other party in the arbitration requests security for costs, and the arbitral tribunal, after considering the applicant's intention, the funded party's subjective intention in initiating the arbitration, the funded party's financial situation, and the likelihood of the arbitration award, still cannot determine whether to make a security for costs order, the tribunal may require the party to disclose certain terms of the funding agreement. This grants the tribunal the discretion to decide whether to further disclose the contents of the funding agreement based on the specific circumstances of the case [Anukaran 2018].

Third, regarding the timing of the disclosure obligation, current arbitration rules adopt two models. The first is specifying a clear disclosure timeframe. For instance, Article 98U(2) of the "Hong Kong Third Party Funding Ordinance" stipulates that parties must inform the other party and the arbitral tribunal of the relevant information of the third-party funder either at the start of the arbitration or within 15 days from the signing of the funding agreement.For example, Article 48(1) of the New Arbitration Rules states that parties must fulfill the disclosure obligation without delay after signing the funding agreement. This paper argues that specifying a clear disclosure timeframe facilitates the disclosure of third-party funding information by the parties. Terms like "without delay" and "as soon as possible" are vague, providing ample room for interpretation for parties reluctant to disclose, which is not conducive to standardized disclosure practices in arbitration. Hong Kong's clear stipulation of a 15-day disclosure period facilitates the fulfillment of disclosure obligations in practice, providing parties with reasonable time to prepare the materials needed for disclosure [Kenny 2021].

Finally, regarding the responsibility for failing to fulfill the disclosure obligation, it can be regulated to some extent by the existing arbitration rules. For example, conflicts of interest involving arbitrators can lead to the replacement of arbitrators, the annulment, or the non-enforcement of arbitration awards. However, not all procedural issues in arbitration lead to these legal effects [Osmanoglu 2015]. Article 48(2) of the New Arbitration Rules stipulates that if a party fails to fulfill the disclosure obligation as required, the arbitral tribunal will take this into account when making a decision on arbitration costs or other fees. Therefore, specifying the responsibility for failing to fulfill the disclosure obligation is also crucial for improving the disclosure system [Guven, Johnson, Cotula, Garcia, and Jane Kelsey 2019]. This paper suggests that considering the disclosure of third-party funding information within the scope of arbitration-related costs, such as when determining the allocation of arbitration costs or ordering one party to bear attorney fees, is an effective regulation for the disclosure of funding information.

Specifically, regarding the regulation of third-party funding information disclosure in China, the following measures can be adopted by combining China's actual situation with the practices of Singapore and Hong Kong. The funded party should be clearly defined as the subject responsible for disclosure. Once the legal status of the third-party funding system is further recognized, lawyers can also be considered as subjects with disclosure obligations. The disclosure period should generally be set to 15 days after the signing of the funding agreement to facilitate practical implementation. Additionally, parties failing to fulfill the disclosure obligation should bear more costs in the allocation of arbitration fees as a penalty measure to ensure that parties comply with the relevant obligations.

4.2 Improve Regulatory Models of China

Given the investment and financing nature of third-party funding activities, funders decide to invest in a particular dispute case after evaluating the probability of winning the case. Generally, third-party funders do not invest in cases with a low probability of success, which to some extent reflects the self-regulation of the third-party funding industry. However, relying solely on self-regulation cannot address the impact of third-party funding on arbitration proceedings, and excessive supervision could inhibit the industry's development [Tang Qiongqiong 2018]. Therefore, this paper suggests adopting a model that combines lenient regulation with third-party funding to support the continuous and stable development of the third-party funding system.

First, the qualifications of third-party funders should be regulated. Section 5B(8) of the Singapore Civil Law provides that Singapore law can prescribe the requirements and conditions that qualified third-party funders must meet and regulate how third-party funders provide funding. Based on this enabling provision, Article 4 of the 2017 Civil Law (Third-Party Funding) Regulations requires that qualified third-party funders must have third-party funding as their primary business, and they must have a paid-up capital of at least SGD 5 million or controlled assets of no less than SGD 5 million. At the same time, Sections 5B(3) and 5B(4) of the Singapore Civil Law specify the legal consequences for failing to meet the requirements for third-party funders, stating that if a third-party funder violates the qualification requirements, the rights under the third-party funding agreement will not be enforceable. The provisions regarding the qualifications of third-party funders in Singapore are of certain reference value to China. However, considering that the third-party funding system in China is still in its early stages of development, the minimum capital requirements for establishing third-party funding institutions should not be set too high.

Secondly, the proportion of winnings that third-party funders are entitled to should be reasonably limited. Although third-party funders often choose to invest in cases with a high probability of winning and strong enforceability, some funders may be tempted by high returns to take risks by investing in cases with a low probability of success but potentially enormous economic benefits if successful [Xiao Yongping and Zhao Jiarui 2020]. This "high risk, high reward" investment model increases the likelihood of frivolous lawsuits, which is detrimental to the development of the third-party funding system in China. China's "Opinions on Further Regulating Lawyers' Service Charges" strictly limit the amount of legal service fees that lawyers can charge at various stages of contingency fee arrangements. For example, for the portion of the claim amount less than RMB 1 million, the fee must not exceed 18% of the claim amount; for the portion between RMB 1 million and 5 million, the fee must not exceed 15%, and so on. This paper suggests that since contingency fees and third-party funding share certain similarities, China's arbitration rules could adopt similar restrictions to those applied to lawyers' contingency fees to reasonably limit the proportion of winnings that third-party funders can claim. This would help reduce the occurrence of frivolous lawsuits induced by third-party funding.

Finally, efforts should be made to minimize the interference and control of third-party funders over the arbitration process. The purpose of third-party funders in assisting the funded parties to initiate arbitration is to obtain corresponding investment returns, while the purpose of the funded parties in initiating arbitration is to seek justice and resolve disputes. The inconsistency in their objectives may lead to disagreements on how to resolve the dispute. For example, third-party funders, driven by the expectation of winning benefits, often restrict the funded parties' legal rights to mediate or settle through the funding agreement. The interference of third-party funders in the arbitration process is detrimental to both the efficiency and quality of international investment dispute resolution and the protection of the funded parties' legal rights. Therefore, China’s regulation of the third-party funding system should grant arbitral tribunals a certain degree of discretion to invalidate parts of funding agreements that involve inappropriate interference or control by third-

party funders over the arbitration process.

4.3 Strengthening Constraints on Arbitrators

The impartiality and independence of arbitrators are crucial not only for determining whether the arbitration award will be annulled or unenforced but also for maintaining the integrity of the arbitration process [Hascher 2012]. Article 11 of the UNCITRAL Arbitration Rules stipulates that any person who is approached in connection with their possible appointment as an arbitrator shall disclose any circumstances likely to give rise to justifiable doubts as to their impartiality or independence. Article 12 of the UNCITRAL Arbitration Rules requires arbitrators to disclose any such circumstances immediately before and during their appointment. The Draft Code of Conduct for Adjudicators in Investor-State Dispute Settlement requires arbitrators to possess independence and impartiality in Article 3. Furthermore, the IBA Guidelines on Conflicts of Interest in International Arbitration, Article 14 of the ICSID Arbitration Rules, and Articles 11 and 14 of the ICC Arbitration Rules all address the impartiality and independence of arbitrators. Article 34 of China's Arbitration Law explicitly stipulates the circumstances under which parties have the right to request the recusal of arbitrators, but it does not mandate a disclosure obligation for arbitrators. Given the adverse impact of third-party funding on the fairness and independence of awards, China should also strengthen constraints on arbitrators.

Firstly, China should introduce an arbitrator disclosure system. On one hand, arbitrators should be required to disclose their relationships with the parties, lawyers, and third-party funders when accepting appointments. This includes, but is not limited to, economic interests and professional connections. On the other hand, arbitrators should have a continuing obligation to disclose throughout the arbitration process. If new potential conflicts of interest arise during the arbitration, the arbitrator must immediately disclose them.

Secondly, arbitration institutions should establish a code of conduct for arbitrators. This code should specify detailed requirements regarding the independence, impartiality, confidentiality obligations, and professional ethics of arbitrators. Arbitration institutions should provide regular training on the code of conduct to ensure that arbitrators fully understand and comply with these regulations.

Furthermore, arbitration institutions should establish a roster for the appointment of arbitrators and strengthen the management of conflicts of interest. The roster should record the professional qualifications, cases handled, and other identities of the arbitrators and be regularly updated and reviewed to minimize conflicts of interest due to the diverse identities of arbitrators. This can help reduce the likelihood of replacing arbitrators during the arbitration process or having the arbitration award annulled or refused recognition and enforcement.

5. Conclusion

Overall, although the practice of third-party funding started relatively late in China, its legality has been generally recognized in traditional Chinese legal theory as well as in arbitration and judicial practice. With the changes in the global economic situation and the advancement of China's "Belt and Road Initiative," establishing a comprehensive third-party funding system is becoming increasingly important. This paper suggests that the focus of regulating third-party funding in China should be on constructing a third-party funding information disclosure system to avoid conflicts of interest. Additionally, a lenient regulatory model for third-party funding institutions should be established. It is essential to ensure that Chinese arbitrators possess impartiality and independence and to implement a disclosure system for arbitrators. These measures will jointly support the rapid, orderly, and healthy development of the third-party funding system in China, thereby promoting the rule of law in China's international arbitration field.

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